Real Estate

San Jose nears pact for realty

By Steve Hemmerick

SAN JOSE, Calif. — The San Jose Retirement Systems has all but signed a contract with NBS Realty Advisors, San Jose, to help the system make its first investments in real estate.

The fund eventually might invest about $40 million, or about 10% of its nearly $400 million in assets, into equity real estate and possibly some mortgages with equity kickers.

The trustees are negotiating contract specifics with NBS, but "we have pretty much concluded those negotiations at this point," said Ed Overton, retirement and benefits administrator for San Jose.

The retirement system now is a traditional stock and bond investor. But Mr. Overton said trustees believe they should move into a new asset class because of the growth in the system's assets.

Many pension funds began moving into real estate about five years ago, and the number of pension fund investors in real estate increased rapidly as high rates of inflation hit the country.

At that time, a key reason for investing in real estate was its promised hedge against inflation. Inflation has dropped considerably, but Mr. Overton said the fund's trustees want to be in real estate during the next inflationary cycle, which some economists believe could be a short time away.

During the last inflationary cycle, Mr. Overton underscored, the city retirement system had no real estate investments. Among investments commonly used by pension funds, real estate has the best return on investment performance for the past 12 years, he said.

"The board felt it was time to diversify," he added. "We want to get ourselves in position when change does come, having different assets for different economic scenarios."

Even in this period of low inflation, he said, "we will still get stable and decent returns on our real estate."

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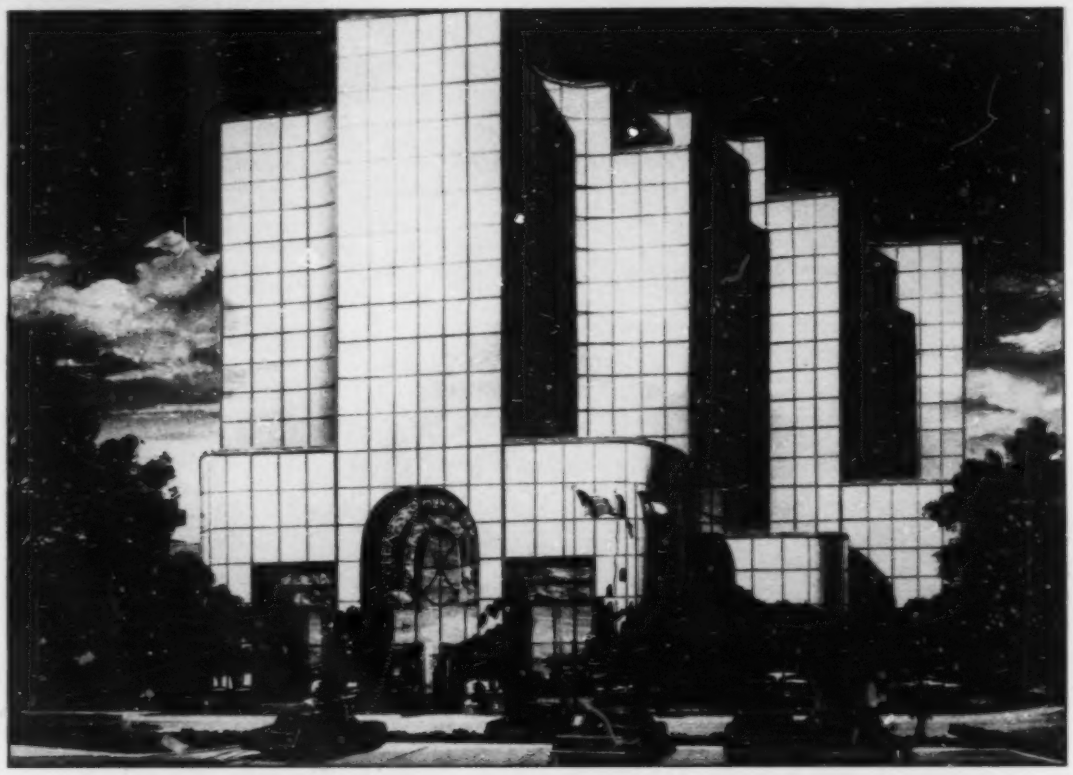

The Texas Bank North Building, a nine-story office building in San Antonio, is one of five properties in the ICM real estate investment trust.

2 new trusts are geared to institutional investors

REITs making comeback among funds

By Mark Westerbeck

NEW YORK — Pension funds now have new real estate investment trusts in which they can invest. Whether they will buy the trusts will be another story.

REITS reeled in everyone's marketplace after the mid-1970s collapse of the many bank trusts invested in construction debt. While still carrying the stigma, equity REITs have led a gradual comeback with individual investors.

Those on the New York Stock Exchange have shown a 20% compounded rate of return in the past five years. During 1984, $1 billion of new issues were sold, mostly in equity and convertible debentures, according to Bruce G. Garrison of the Houston investment banking firm of Lovett Mitchell Webb Inc.

The index the National Association of Real Estate Investment Trusts keeps on 70 REITs reached the highest level in its 12-year history in November.

Pension funds never have been big players directly across the board, chiefly because the product hasn't been available to them: usually the underwriting is so small they would dominate it.

Only a few REITs have tried and been successful with tax-exempt investors, and all have been around for years.

Corporate Property Investors, New York, and Property Capital Trust, Boston, actively have solicited major pensions funds, endowments and foundations in the United States. The largest shareholder in New Plan Realty Trust, New York, is the Merchant Navy Officers pension fund of Great Britain.

REITs are sold to money managers as the stock play they are, with underlying real estate characteristics, so they can show up in pension portfolios that way.

Morgan Guaranty long has been a major holder of REITs for its large open-end commingled fund for pension accounts, although lately it has been a net seller in a change of investment strategy. Citibank runs a real estate stock fund with substantial REIT holdings that is marketed to pension plans.

A sign the REIT image has changed came with the emergence in late 1984 of two trusts that are geared, in part, to the institutional market.

They benefit strongly by the backing of two

Continued on page 16

Realty advisers report new-business gains

Most new real estate business (managers over $1 billion)

Rank	Companies	$ millions
1.	RREEF Funds San Francisco	874
2.	LaSalle Advisors Chicago	626
3.	Heitman Advisory Chicago	411
4.	Aetna Life & Casualty Hartford, Conn.	392
5.	Prudential Asset Management Newark, N.J.	266
6.	Corporate Property Investors New York	155
7.	Latimer & Buck Philadelphia	92
8.	Boston Co. Boston	82
9.	New England Mutual Life Boston	60
10.	John Hancock Boston	56

The listing of top new-money winners in *Pensions & Investment Age*'s score card is similar to the rankings of the top real estate advisers or new-business winners in *P&I Age*'s Sept. 3 listing of realty advisers.

Apparently because of strong movement in the second half of the year, LaSalle Advisors, Heitman Advisory and Corporate Property Investors, among several others, show up in the score card (*see accompanying tables*) but didn't in the Sept. 3 list.

But the inclusion of Latimer & Buck on the score card might come as a shock to many, both for its inclusion on a list of firms with more than $1 billion under management and for $92 million in new capital commitments.

Marketing under the handle L&B Real Estate Advisors, Latimer & Buck has been selling a closed-end fund since October.

The money it reports under management has all come from the Pennsylvania School Employees Retirement System, for which Fidelity Bank, the trustee that L&B advises, has been running real estate since 1956. Both the bank and L&B are subsidiaries of Fidelcor, a holding company in Philadelphia.

Douglas S. Callantine, L&B chief investment officer, said the adviser has worked on about $550 million in equity-oriented investments and $600 million in mortgages for the school fund.

On that record, it hopes to raise $75 million to $100 million for the closed-end fund, which will emphasize participating debt and preleased properties. Minimum contribution is $500,000.

The decision to diversify the adviser's business was made about 18 months ago. "Probably the biggest hurdle we're overcoming is name recognition," Mr. Callantine said.

Most new real estate business (managers under $1 billion)

Rank	Companies	$ millions
1.	F.I.A. Associates Sacramento, Calif.	891
2.	Goldman, Sachs New York	280
3.	Eastdil Realty New York	258
4.	Karsten Institutional Realty Los Angeles	255
5.	TCW Realty Los Angeles	224
6.	Copley Real Estate Boston	220
7.	Landauer Advisors New York	210
8.	Hutton New York	205
9.	Mellon Real Estate New York	200
10.	Landorff & Babson Boston	107

GIC sales boom

By Chuck Paustian

High interest rates in the early part of 1984 and a growing popularity of defined contribution plans made the year a good one for sales of guaranteed investment contracts.

GIC sales propelled a number of insurance companies to the top ranks of the nation's money managers in terms of new tax-exempt business gained in 1984.

Metropolitan Life was the top manager in terms of new business added last year, but Travelers, Aetna Life & Casualty Co. and Prudential also were in the Top 10, according to a *Pensions & Investment Age* survey.

The survey showed a total of $10.7 billion in GIC sales from Jan. 1 through Nov. 15 for the Top 10 companies.

Andrew Pfeifer, a consultant with Meidinger Asset Planning Services Inc., estimated that GIC sales among all managers for 1984 totaled $17 billion to $18 billion.

Metropolitan Life Insurance Co., New York, led the way with $3.1 billion dollars in sales of GICs. Prudential Asset Management Co., Newark, N.J., was second with $2.4 billion, followed by The Travelers, Hartford, Conn., with $1.3 billion (*see accompanying table*).

The top GIC managers said key reasons for the heavy sales of GICs in 1984 were the high interest rates that could be locked in, at least in the first half of the year, the flexibility of GICs and the continued growth in defined contribution plans.

Robert J. Bott, vice president of Metropolitan Life, said there is a growing interest among public pension funds looking to use GICs as a replacement for bonds.

"Customers are looking for flexibility in terms of GICs. As long as those needs are known up front, we can usually accommodate those needs," said Mr. Bott.

Some companies are replacing defined benefit plans with defined contribution plans, and some are adding defined contribution plans to their benefit programs. Consequently, plan participants are able to determine the investment strategy of their contribution. Overwhelmingly, the participants are choosing guaranteed investment vehicles.

"A very high proportion of participants' investments are in guaranteed investments. Of their own contributions, I would guess about 75% to 80% are in fixed-dollar accounts," said Robert M. Chmely, senior vice president of Prudential Asset Management.

The plan participants are attracted to the guaranteed investments because of their high rates of return and the security of the principal investment, he said.

Although defined contribution plans have given the GIC market a boost, defined benefit plans have not given up on this vehicle.

T. Jerald Moore, vice president of Aetna, said guaranteed investments allow the pension fund executive to lock in current high interest rates for the duration of the contract. Pension officers are taking advantage of this to lock up recent gains made in the stock and bond markets.

However, Mr. Moore believes the recent trend among defined benefit plans to establish dedicated or immunized bond portfolios will create competition with GIC business.

"Basically, we are competing for the same investment dollar as the dedicated or immunized bonds," said Mr. Moore. The pension fund's particular needs determine which investment vehicle is chosen. Whereas GICs generally have a higher yield, the dedicated and immunized bond portfolios tend to have greater liquidity.

Mr. Moore also said defined benefit plans seem to be more willing to use GICs than in the past.

"Defined benefit plans are using GICs to fill what in the past was filled by active bond management," he said.

Both Messrs. Moore and Chmely agreed another trend in the GIC market seems to be toward shorter durations for the contracts.

Ten years ago, it was not uncommon to find guaranteed contracts with terms of between 10 and 15 years. However, in the late 1970s and early '80s, when interest rates soared, pension fund executives and insurance companies both struggled to get out of these contracts.

Having learned their lesson, pension executives now seek terms long enough to take advantage of the high interest rates without being tied into a long-term contract should interest rates begin to climb again. The average term for guaranteed investments is between five and seven years for defined benefit plans and between four and six years for defined contribution plans.

Mr. Chmely believes a rating system for GICs, similar to the bond rating system, soon might be available to investors. The system would examine the company's ability to meet its obligations. Mr. Chmely said a desire for such ratings has been expressed to him by several pension executives.

"Plan sponsors wouldn't buy bonds if they weren't rated, but they'll buy GICs without batting an eye," he said.

Mr. Chmely added Prudential already has begun talking with major rating companies about having its GICs rated.

Mr. Bott agreed a rating system for GICs would be desirable.

"I personally would like to see that. I think our company would benefit from such a rating system," he said.

Most new GIC business

Rank	Companies	$ millions
1.	Metropolitan Life New York	3,055
2.	Prudential Asset Management Newark, N.J.	2,404
3.	Travelers Hartford, Conn.	1,298
4.	Aetna Life & Casualty Hartford, Conn.	969
5.	John Hancock Boston	678
6.	Provident National Assurance Co. Chattanooga, Tenn.	647
7.	New England Mutual Life Boston	523
8.	Northwestern National Life Minneapolis	464
9.	Mutual Benefit Life Newark, N.J.	372
10.	Morley Capital Lake Oswego, Ore.	301

Funds active in . . .

Continued from page 3

enth largest net dollar gain, slightly more than $1.5 billion. Just more than half of the gain was due to a $760 million account for the New York City Teachers' Retirement System.

Of the gain, $55 million came from new contributions from existing clients. The firm lost $37 million in business from one client. Its net percentage gain was 21%. As of Nov. 30, it had $7.5 billion in tax-exempt assets under management.

The Prudential Asset Management Co., Newark, N.J., another GIC leader, had the eighth largest net dollar gain, also more than $1.5 billion but slightly less than Fischer, Francis' gain.

Prudential had $2.9 billion in new business, but had three clients withdraw about $1.4 billion. This includes some funds that were used for benefit payments and some that were transferred to other accounts.

Of the new business, $2.4 billion came from GICs for a long list of clients including Honeywell Inc., Talman Home Federal Savings and the National Geographic Society.

Prudential also gained $266 million in real estate, with five new clients including the State of Pennsylvania. A total of $289 million was from equities.

About $31 million came from fixed-income accounts, including Duke University, Children's Medical Center of Dayton and Fordham University.

Overall, Prudential added 107 clients. Of the new business, $1.3 billion came from them and $1.6 billion from existing clients.

Prudential's net percentage gain was 4.5%. It had $34 billion in tax-exempt assets under management Nov. 15.

The ninth largest net dollar gain was slightly less than $1.5 billion by Mellon Capital Management Corp., San Francisco, a leader in stock indexing. All of Mellon's gain was in equities and all but $10 million of it was from 13 new clients, including General Mills Inc., Polaroid Corp., Trans World Airlines, Shell Oil, Union Pacific Corp. and several public funds.

Mellon officials said the company lost no business during the year, so the net percentage gain was 64.4%, bringing Mellon's total tax-exempt assets under management to $2.3 billion.

The 10th largest net dollar gain was posted by Batterymarch Financial Management, Boston, an equity manager that gave up indexing several years ago. Batterymarch is a contrary investor, concentrating on out-of-favor stocks.

Its net dollar gain was $1.1 billion. It drew $709 million from 17 new clients and $447 in new contributions from existing clients. It lost $34 million from one client.

Its net percentage gain was 9.7%, bringing its total tax-exempt assets under management to $11.8 billion. ■

Index-fund firms . . .

Continued from page 4

manager and use value-oriented managers like Bernstein to round out their investments, Mr. Abramson said, while smaller funds tend to go with value-oriented managers generally.

Bernstein also differed from the other large gainers in that it landed a large number of small accounts rather than a small number of large ones. It had 187 new clients for equity or balanced accounts. Its new equity business came to $1.1 billion.

The firm with the fifth largest gain, State Street Bank and Trust Co. of Boston, does much passive management. It developed stock index futures funds and offers U.S. and international index funds and several other investment vehicles, said Ron Golz, executive vice president.

"We're not a 'plain vanilla' equity manager," he said.

State Street gained $720 million in equity business in 1984. Much of this gain came from 401(k) plans, Mr. Golz said.

Indexing was not prevalent among midsized and small firms that had major equity business gains.

Of firms with between $250 million and $1 billion under management, Treyner-Arbit Associates, Chicago, won the most equity business — $365 million.

"Our approach is what we call opportunistic," said Ed Matz, senior vice president and director of marketing. The firm doesn't restrict itself to one type of stock, but invests in situations where there appears to be a bias that prevents the market from seeing the value of a stock, he said.

Another large gainer among the midsized firms was Newbold's Asset Management, Philadelphia, with $274 million in new business. The company is value oriented and buys stocks with low price-earnings ratios, said Timothy Havens, president.

"Our brand of management seems to be the in thing," Mr. Havens said.

Among firms with less than $250 million under management, many of those posting large gains were new firms just getting major commitments.

"You go through a dramatic growth stage," said Mitchell Milius, president of PRIMECAP Management Co., Los Angeles, the top gainer among small firms.

In business since September 1983, the value-oriented firm gained $162 million in equity business in 1984.

Another new firm on the list was Daniel Breen & Co., Houston, which gained $78.5 million in equity business. Daniel Breen, president, said he thinks the firm's equity investment strategy, which is value oriented and rotational, is the factor that has brought in the clients. The company, which also does fixed-income management, has been in business since December 1983. ■

Dedication . . .

Continued from page 4

However, Mr. Watts said he sees a resumption of interest in active management.

Active management did have its fans in 1984. A large firm that posted a major gain without being involved in dedication or immunization was Miller Anderson Sherrerd, Bala Cynwid, Pa., with $823 million in new business.

The firm is a strategic market timer with an emphasis on mortgage-backed securities, said Fred Owens, director of marketing.

Several midsized firms that manage bonds actively also registered significant business gains.

CM&M Asset Management Co., Philadelphia, gained $134 million in fixed-income business, the largest gain in its category of firms managing between $250 million and $1 billion.

CM&M is an active, risk-averse manager, investing in instruments ranging from short-term cash equivalents to 30-year bonds. As for dedication and immunization, "that's not our style," said Lacy H. Hunt, president and founder.

The second largest gainer in that size category was The Chicago Corp., Chicago, which also is an active manager that has done nothing with dedication or immunization. It gained $111 million in fixed-income business, due largely to its performance and success in forecasting interest rate fluctuations, said Charles Klimkowski, vice president.

The third largest gain among managers in that size category also was shown by an active manager, Investment Counselors of Maryland. President Craig Lewis said his firm's approach is to divide each portfolio into two portions, with half being underpriced fixed-income securities and the other half positioned in bonds or cash equivalents of various maturities, depending on the interest rate forecast. The company gained $70 million in fixed-income business in 1984.

The biggest fixed-income business gain among firms with less than $250 million under management was $88 million by Summit Management Co., Los Angeles, which does some dedication and might do more in the future, said Bill Hildeburn, vice president in charge of fixed-income investments.

The company's philosophy of fixed-income management is to emphasize U.S. Treasury issues rather than other types of bonds, and to adjust maturity schedules according to the direction of interest rates. However, the company doesn't buy bonds with maturities greater than 10 years, Mr. Hildeburn said.

Lotsoff Capital Management, Chicago, had the second largest gain among small firms, with $65 million. The company uses a variety of approaches, both active and passive, depending on the needs of clients, said Seymour Lotsoff, president.

Officials of the top-gaining firms said it's not just the investment approach that brings in business. Other factors are past performance and the reputation of company principals. ■

Pensions & Investment Age's regular Datebook section lists upcoming conferences and seminars of general pension interest as well as those concerning real estate, corporate finance and cash management. If you are sponsoring a conference or meeting and wish it to be listed, please send the information to: Eddy Christman, *Pensions & Investment Age*, 220 E. 42nd St., New York, N.Y. 10017.

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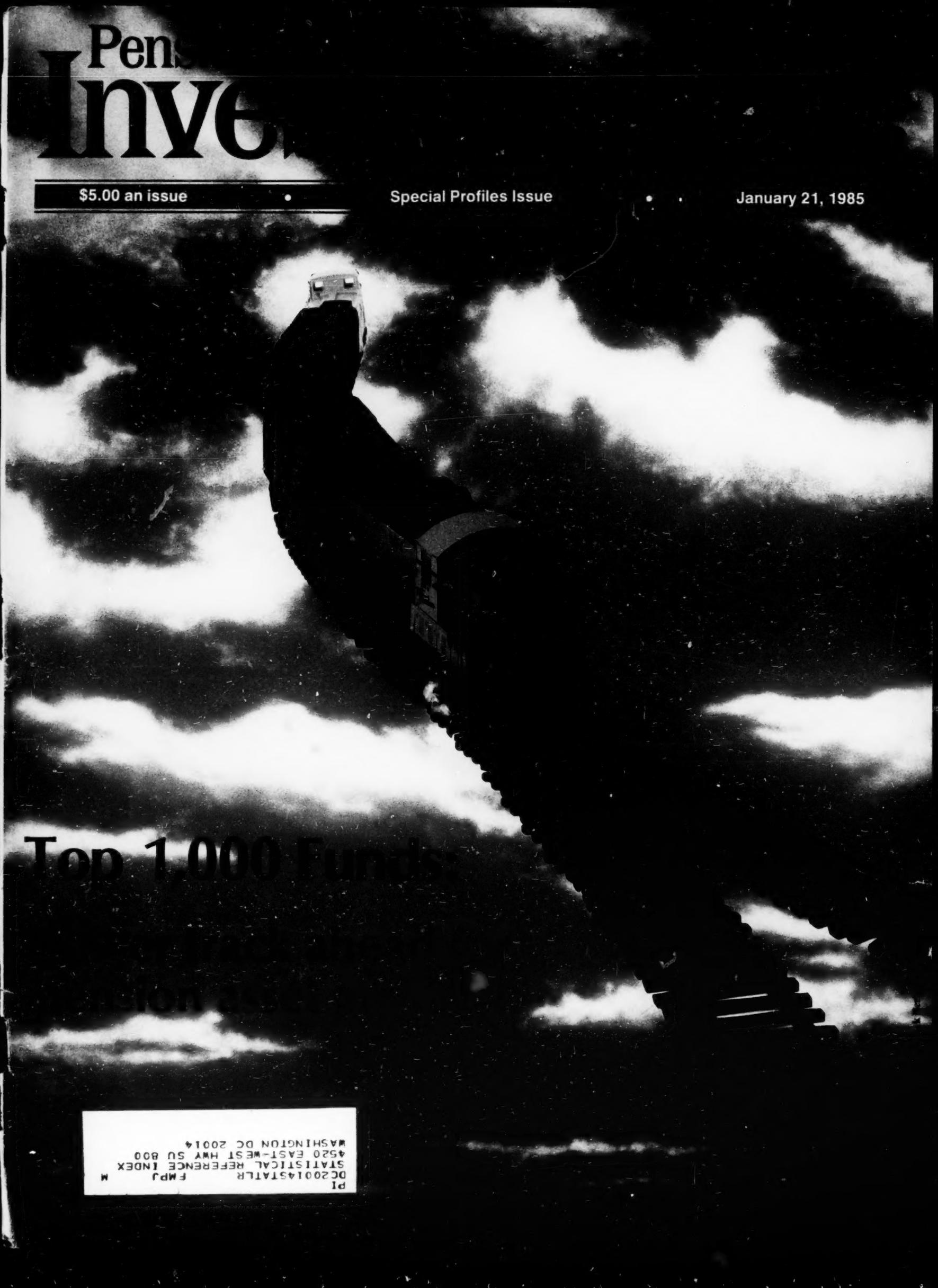

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AAFES selects 7 in push for diversification

By Fred Williams

DALLAS — The Army and Air Force Exchange Service pension fund continued its diversification efforts by hiring five real estate managers, one venture capital manager and a manager for options overwriting.

Martin Rodman, assistant comptroller-insurance, said AAFES decided on three closed-end and two open-end real estate pools with the goal of reaching a 10% target allocation.

The new accounts will be funded by contributions to the plan, he said; no managers were terminated as a result of the hirings.

The new closed-end real estate managers and the amount to be assigned to each are: JMB Institutional Realty Corp., Chicago, $5 million; LaSalle Advisors, Chicago, $5 million; and The RREEF Funds, San Francisco, $15 million.

Mr. Rodman said J.P. Morgan Investment Management Inc., New York, was hired to manage $5 million in its open-end funds. The firm was selected because of its style, which includes structural renovations; he said it fits well with the AAFES investment philosophy.

Goldman, Sachs & Co., New York, was hired to manage $2 million in its open-end commingled fund. It will be funded through contributions and will receive distributions from the three new closed-end accounts and from the two existing real estate accounts, Mr. Rodman said.

AAFES' two existing real estate managers are John Hancock Mutual Life Insurance Co., with $33 million, and Aetna Life Insurance Co., with $21 million.

The new hirings bring AAFES' total real estate commitment to $86 million, or about 11%.

The three closed-end real estate funds were selected to form a universe from which the pension fund can select with the expectation that at least one fund would be open every year, Mr. Rodman said.

The $765.3 million AAFES fund also hired Manufacturers Hanover Investment Corp. to manage a $5 million separate venture capital account. Manufacturers Hanover will serve as investment adviser on venture capital partnerships, said Mr. Rodman.

In addition, the AAFES plan also hired Balch, Hardy & Scheinman Inc., New York, for options overwriting contracts on stocks held by the fund's equity managers.

Mr. Rodman said all the hirings took place during the fourth quarter of 1984 and all contractual arrangements were completed by the end of the year.

The additional real estate managers are part of a diversification movement by the fund, started in 1982. It is part of the fund's turn toward more active management and the hiring of multiple managers. Until 1982, the fund had only two managers, both insurance companies.

In earlier efforts, AAFES hired international and fixed-income managers in 1983, and added equity managers in 1982.

The asset mix of the fund on Sept. 30 was 58% stocks, 5% bonds, 1% cash, 7% real estate, 2% mortgages, 2% guaranteed investment contracts and 25% insurance general accounts. ■

Pensions & Investment Age

Pension asset growth stunted in 1984

NEW YORK — The growth of employee benefit assets slowed dramatically in 1984 under the impact of relatively flat stock market performance, a decline in employer contributions and the terminations of some large plans.

The assets of the nation's 1,000 largest employee benefit systems — which encompass pension, profit-sharing, 401(k) and thrift plans — grew 6.9% to $861.6 billion in the year ended Sept. 30, 1984, compared with 29.4% the previous year.

The assets of the Top 200 employee benefit systems grew even more slowly — 5.9% to $641.4 billion. Pension plan assets, which make up the bulk of total assets, grew only 5.7% to $575.5 billion.

The growth rate was affected by a stock market that grew only 4.2% in the year, a bond market up only 7.1%, a decline in employer contributions to the 200 largest plans of $3.4 billion, and the termination of several Top 200 corporate funds.

The decline in contributions and the terminations resulted, in part, from the excellent investment returns pension funds have achieved in the past five years, and the high interest rates.

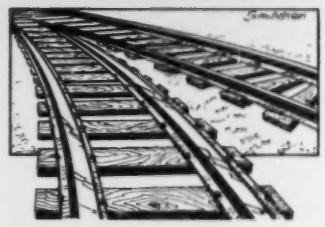
The returns have brought some funds to a fully funded condition, requiring them to reduce contributions and encouraging some companies to terminate plans and recover excess assets.

In addition, some companies have reduced their work forces, reducing their long-term obligations. Others have lowered their salary assumptions, reducing the required contribution.

Other companies have been able to lock in the higher interest rates through immunization, dedication or the purchase of guaranteed investment contracts, raising the assumed rate of return on their investments. This, in turn, allowed many to reduce their contributions.

The number of funds with dedicated or immunized bond funds increased modestly to 39 from 31, but the amount of assets in such funds almost tripled to $17.2 billion from $6.6 billion.

American Information Technologies Corp., one of the new telephone operating companies spun off from American Telephone &



Telegraph Co., and Chrysler Corp. were among the companies that dedicated large parts of their pension funds during the year.

One other factor contributed to the slow growth of the assets of the Top 200 plans — the breakup of the huge AT&T plan into eight plans. For the year ended Sept. 30, 1983, the single AT&T plan had $61.2 billion in total assets, composed of $53.9 billion in pension assets and $7.3 billion in savings assets.

For the year ended Sept. 30, 1984, the assets are in eight plans, all of which are among the 100 largest plans. They displaced from the Top 100 other pension funds that were included in last year's survey.

As a result of all of these factors, the assets of the corporate plans in the Top 200 showed virtually no growth in the 12 months ended Sept. 30, totaling $325.5 billion compared with $320.1 billion, a 1.7% gain.

The assets of public plans in the Top 200, on the other hand, grew 9.3% to $279.8 billion. The top union

Continued on page 14

Wickes shifts to cash in termination step

By Barry B. Burr

SANTA MONICA, Calif. — Wickes Cos. put almost its entire $130 million in pension assets into cash equivalents, firing seven money managers, in a prelude to terminating most of its pension plans.

Wickes hired Bankers Trust Co. to liquidate most of the pension assets. Bankers sold off $73 million in equities, mostly in December, using stock-index futures and other trading techniques.

In addition, the fund sold off another $20 million in bonds to put into cash equivalents.

Bankers, Wickes's master trustee, is investing the proceeds — about $90 million — for the fund in short-term instruments.

"Our time horizon right now is short term as opposed to long term," said John I. Weisickle, Wickes' manager of treasury planning analysis.

Jay Adams Knight, associate counsel, said Wickes needs the liquidity to purchase annuities to cover liabilities as it terminates pension plans during 1985.

Wickes retained one money manager, Rosenberg Capital Management, San Francisco, running a $40 million bond portfolio. Mr.

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Experts fear pension fund interest will cool

DOL proposal may curb pools

By Joel Chernoff

WASHINGTON — The Department of Labor's proposed plan assets regulation might chill pension fund interest in various real estate equity, venture capital and oil and gas investments, some pension experts say.

Moreover, future deals might be drastically restructured, while ambiguities in the proposal might cause difficulties for such investments as those involving hybrid debt/equity instruments, critics assert.

About $1 billion in pension assets are in investments affected by the regulation, the DOL has estimated.

The proposal, which the department has struggled to write for 10 years, is designed to clarify whether a pension fund's interest in a pooled investment or the underlying assets of the pool are considered pension plan assets.

Generally, the proposal states plan investments would not cause the pool's assets to be considered plan assets. But where a plan obtains an equity interest in a pool that is neither a publicly offered security nor a security issued by a registered investment company, the "look through" to the underlying assets would occur.

The proposal provides exceptions to that test, including key provisions for the real estate and venture capital industries.

However, if the pool's underlying assets are deemed plan assets, the pool manager would become subject to the Employee Retirement Income Security Act's fiduciary standards.

That would expose the managers to the law's prudent investment and reporting rules, force them to diversify their investments, make their incentive compensation schemes illegal and impair their ability to conduct business with service providers and others with whom they have existing relationships.

In addition, the rule might cause some managers to rush to close currently marketed pools by May 8, a key cutoff date in the proposal.

"You certainly are in a quandary as you're planning new products," said William Salisbury, general counsel for Copley Real Estate Advisors, Boston.

However, some advisers believe their businesses will be unharmed by the proposal.

"Now, the law is in a state of confusion," said Stan Zarrow, director of legal services for TCW Realty Advisors, Los Angeles. The proposal is "a benefit to the real estate industry, rather than a detriment."

Robert Monks, former U.S. pension administrator, said the Labor Department has sought to "shape a regulation that is least burdensome to plans and minimally disruptive to the normal business operations of companies."

However, additional regulation is needed in some cases, he said.

Continued on page 124

Late news

Buy-back discussed

ATLANTA — Employees of Montag & Caldwell Inc. reportedly are in negotiations to buy back the more than $400 million money management operation from parent Alexander & Alexander Services Inc. Solon Patterson, Montag's chairman of the board, said he could not comment unless an agreement had been reached and it had been discussed with clients. Alexander & Alexander bought Montag in 1979.

Cabanne Smith hired

SEATTLE, Wash. — Boeing Co.,

Continued on page 4

United Air Lines' pension contribution cuts have been attributed to an overfunded plan and perhaps a need for cash.

Pension contributions cut

United gets 'windfall'

By Barry B. Burr

CHICAGO — Security analysts attributed United Air Line's more than $100 million in pension contribution cuts to a substantially overfunded pension plan and perhaps a need for cash to buy more aircraft in 1985.

In all, United cut its pension expense for 1984 by $125 million.

The saving will boost the pretax operating income of its parent, UAL Inc., by the same amount for the year, the company said.

One analyst called it "a windfall" for United.

The company said it expects to release its preliminary fourth quarter financial report at the end of January. In the first three quarters, its pretax operating income was $347 million.

In 1983, UAL's pretax operating income was $216 million.

The latest cut, announced this month, was for $89 million recorded in the fourth quarter ended Dec. 31. Early in 1984, United had made a $36 million cut in pension expense.

United said it contributes in cash annually to the pension plan the same amount UAL expenses in pension costs in its consolidated corporate income statement.

For 1983, United's pension expense was $258.6 million. In 1982, it was $215.9 million; in 1981, $242.5 million.

In 1983, United said it paid $150 million in benefits, meaning it had been making annually about $100 million more in contributions than it paid in benefits.

United wouldn't estimate its corporate pension contribution, after the cuts, for 1984. But using recent data as a guide, the $125 million in reductions will cut the expense in roughly half, to about $130 million.

At L.F. Rothschild Unterberg Towbin, Timothy Pettee, senior analyst, said, "It's been widely known for some time their pension plan has been overfunded," adding, "United most likely will have small

Continued on page 122

Teamsters' equities to get new managers

By Barry B. Burr

CHICAGO — Morgan Stanley Inc. will make major changes in the equity managers of the Teamsters, Central States, Southeast & Southwest Areas Pension Fund during the next few months, said George W. Lehr, the fund's executive director.

Morgan Stanley's request that it run the Central States' $1.7 billion equity portfolio was tentatively denied by the Department of Labor, which cited conflict of interest, divided loyalties and abandonment of fiduciary responsibility.

Morgan Stanley will have to rely on outside managers for its restructuring of the fund's equity strategy.

"I think they will make changes in the equity managers in the next 60 to 90 days," Mr. Lehr said.

He said Morgan Stanley, which sought to have a single equity management approach, will continue to have a multimanager lineup for the equities. However, he wouldn't say which, if any, of the existing managers would be retained and whether any new managers would be hired.

"They will structure it (the fund's equities) in such a way to do through the managers what they (Morgan Stanley) would have done themselves (had Morgan Stanley become the equity manager)," Mr. Lehr added.

The Labor Department, in its ruling, in effect, dismissed Mor-

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4 pension funds, 1 foundation select international advisers

By Rose Darby

NEW YORK — Four corporate pension funds and one college foundation have moved into international investment, while at least two other funds have made tentative selections.

Those that have not yet finalized hirings are in the process of presenting the idea to their trustees; they requested anonymity until they get the green light.

Cargill Inc. gave permission to invest internationally to both Batterymarch Financial Management, Boston, and IDS Advisory, Minneapolis. Both already handle domestic equity accounts for the company's $160 million employee benefit funds, said Harry Adams, secretary of Cargill pension trust.

"We have allowed a total of about 10% to go into foreign equities, as of Jan. 1," he said. "In both cases, we're using commingled funds."

Batterymarch was selected because it will apply to foreign investment the computer-driven contrarian approach it has used traditionally on the domestic side of investments, said Mr. Adams.

IDS-Gartmore International, the international investing arm of IDS Advisory, will use an approach based more on fundamentals, he added.

The Stanley Works, New Britain, Conn., selected its first international manager by hiring IDS-Gartmore to manage roughly 5% of its $150 million total employee benefit funds, said Robert E. Johnson, vice president and treasurer.

The principal reason behind the move is "the perception that international equity performance is often countercyclical with U.S. equity market performance," he said. "And, we did it for diversification of the fund," he added.

Another tax-exempt fund to take the plunge into international for the first time was the $75 million to $80 million Mount Holyoke College endowment fund, according to Merrill Ewing, treasurer.

The fund hired Putnam International Advisors, Boston, to manage a separate equity account, he said. The initial investment totaled $5 million, he added.

Two corporate pension funds have hired New York-based SBC Portfolio Management International Inc., according to John Conlin, director of marketing.

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NYC picks Damsma as fund chief

By Eddy Christman

NEW YORK — Marvin L. Damsma, formerly pension fund manager at Kellogg Co., Battle Creek, Mich., has been tapped to oversee the investment of the $23 billion New York City Employees Retirement System.

Mr. Damsma's title is third deputy comptroller.

He replaces William Badger, who left, according to sources, because of political differences over the pension fund with Comptroller Harrison J. Goldin.

Mr. Damsma left the cereal maker last year in June over a philosophical difference on how to invest the pension fund (*Pensions & Investment Age*, June 25.) Mr. Damsma had wanted to explore alternative investments while his superiors preferred the conventional approach used by the fund.

Mr. Damsma said he doesn't foresee any potential areas of conflict in New York. "The comptroller is my boss, and my job is to implement the comptroller's and the trustees' policy," he said.

Indeed, Mr. Damsma's investment philosophy might have been helpful in landing the job, because the New York City system has been trying to expand its alternative investment holdings.

Mr. Badger had taken the initial step in broadening the fund's holdings by undertaking a search for international money managers. He

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Late news

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with roughly $5 billion in employee benefit assets, hired Cabanne Smith Associates, King of Prussia, Pa., to manage an equity account, according to a Boeing spokesman. Officials refused to reveal the amount to be invested.

Foundation hires 2

AMES, Iowa — The Iowa State University Achievement Foundation has appointed two new investment managers for its approximately $30 million portfolio, said Evelyn Morgner, senior consultant with Peat, Marwick, Mitchell & Co.'s Investment Supervision Consulting Group, New York, which acted as consultant.

GEMINI Capital Management Inc., Atlanta, Ga., was selected as an equity manager and Wilmington Trust Co., Wilmington, Del., as a fixed-income manager. Ms. Morgner declined to say how much each manager would receive.

Real estate eyed

NEW YORK — Three J.P. Stevens & Co. Inc. pension plans are seeking to become the co-owner of a St. Petersburg, Fla., shopping center with National Life Insurance Co.

According to a notice in the Federal Register, National Life would contribute the Southside Shopping Center, valued at $2.7 million, to a new limited partnership, and receive $700,000 in cash.

The J.P. Stevens plans, which have total assets of about $300 million, would invest $1 million. Stevens has committed $30 million to real estate.

State Mutual hired

WORCESTER, Mass. — Morrison Inc., Mobile, Ala., has hired State Mutual Life Assurance Co. of America to manage the firm's 401(k) plan. The company will make approximately $2 million in 1985 401(k) deposits in State Mutual's guaranteed fund.

Klotz starts firm

CHICAGO — Larry G. Klotz, one of the founders of Dimensional Fund Advisors Inc., has resigned and is starting an investment management firm, Larry G. Klotz Inc.

Mr. Klotz said the new firm will open in four to six months, and will begin by specializing in fixed-income products.

Mr. Klotz founded DFA in 1981 with David Booth and Rex Sinque-

field. He was executive vice president and treasurer at the time of his resignation. He said he had wanted to start a new firm for some time and declined to reveal any other reasons for leaving.

Personnel moves

• NEW YORK — Gary Gerstein, formerly senior vice president at Chase Investors Management Corp., New York, has joined the new management team at Century Capital Associates as a general partner. Mr. Gerstein, who ran the intrinsic-value equity fund at Chase Investors, will share the titles of chief investment officer and managing partner with Thomas Jackson.

• WINDSOR, Conn. — Stanadyne Inc.'s treasurer, John H. Lawrence, who also oversees the company's $110 million in pension assets, is retiring at the end of February. Michael J. DiFranco, vice president-financial services, will become treasurer, also assuming pension fund responsibilities.

• NEW YORK — Robert T. Davis, executive vice president of Eastdil Advisers Inc., New York, has become head of its capital management group, the division of the real estate investment banking firm that manages investments for pension funds.

He replaces James J. Gallagher, who left the firm Jan. 11.

• NEW YORK — Sarah Morton-Jones, previously with Waddell and Reed Asset Management Co., Kansas City, Mo., will join Simms Capital Management on Feb. 4.

She will be assistant portfolio manager and foreign investments analyst for Simms and will also be responsible for client counseling.

Apartheid dispute

ALBANY, N.Y. — New York Comptroller Edward V. Regan has refused Gov. Mario Cuomo's request to participate in a study to determine whether the state should use its pension fund to oppose "the evil system of apartheid" in South Africa.

Marvin Nailor, the comptroller's press secretary, said Mr. Regan is opposed to apartheid, but as the sole trustee to the $23 billion retirement system, his major concern is to protect and enhance the employee benefit assets.

Mr. Nailor said the comptroller doesn't believe public pension funds should be used to dictate foreign policy and fears it could encourage others to try to use the pension fund assets as a financial weapon.

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Vol. 13, No. 2 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 740 Rush St., Chicago, Ill. 60611. Copyright 1985.